



**U.S. Department of Justice**

*United States Attorney  
District of New Hampshire*

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*Federal Building  
55 Pleasant Street, Room 352  
Concord, New Hampshire 03301*

*603/225-1552*

**MEDIA RELEASE**  
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**Contact: Peter E. Papps**  
**Acting United States Attorney**  
**William E. Morse**  
**Assistant U.S. Attorney**  
**Thomas A. Hanusik**  
**Assistant Chief, Fraud Section**  
**Michael L. Koenig**  
**Trial Attorney, Fraud Section**  
**U.S. Department of Justice**  
**(603) 225-1552**

**ADDITIONAL EXECUTIVES INDICTED AND CHARGES BROADENED  
IN CONNECTION WITH FRAUD AT ENTERASYS NETWORK SYSTEMS, INC.**

**CONCORD, NEW HAMPSHIRE** - Peter E. Papps, Acting United States Attorney for the District of New Hampshire and Assistant Attorney General Christopher A. Wray of the Criminal Division of the Department of Justice announced that yesterday two additional former executives of Enterasys Network Systems, Inc., were charged in connection with an accounting fraud at the computer network products company formerly based in New Hampshire. The two new defendants are former Enterasys Chief Operating Officer Jerry A. Shanahan, presently of Ireland, and former Enterasys executive Robert G. Barber, of Durham, N.H. In addition, new charges were brought against former Enterasys Chief Financial Officer Robert J. Gagalis and former Enterasys finance executive Bruce D. Kay, both of whom had been indicted last year on narrower charges. The Indictment was returned by a federal Grand Jury sitting in Concord.

The charges in the Indictment stem from an alleged scheme to falsely inflate Enterasys' publicly reported revenue for the purpose of increasing or maintaining the market price of Enterasys stock and the former officials' status and positions within the company. The new charges allege that the four defendants were responsible for improperly booking nearly \$7 million in revenue from transactions in which they caused Enterasys to invest in customers with the understanding that the customers would use the invested funds to purchase Enterasys products. The Indictment further alleges that the defendants structured the deals using third parties to conceal the true substance of the transactions from the company's outside auditors. In addition, Shanahan is charged with entering into a secret side deal with one of Enterasys customers to allow the company to improperly claim additional revenue of approximately \$3 million. Finally, the Indictment restates charges against Gagalis and Kay relating to a similar secret side deal involving nearly \$4 million in revenue, which were first brought against them in

an indictment last year. Each of the defendants is charged with making false and misleading statements in filings with the U.S. Securities and Exchange Commission (SEC), in company press releases and to the company's outside auditors.

The Indictment, which contains a total of sixteen counts, charges each of the defendants with conspiracy, securities fraud and wire fraud. To date, a total of nine individuals have been charged in connection with the fraudulent scheme. Four individuals, including Entrasys' former Chief Executive Officer, have pleaded guilty.

The maximum sentences associated with conspiracy, mail fraud and wire fraud at the time of the offenses was five years per count. The maximum sentence for securities fraud is ten years per count. The offenses also carry with them the possibility of substantial criminal monetary penalties.

This case is being brought under the auspices of the President's Corporate Fraud Task Force. The investigation was conducted by the Federal Bureau of Investigation and, because of the use of the U.S. mail in connection with the scheme, the U.S. Postal Inspection Service. The criminal investigation was coordinated with a civil investigation conducted by the SEC's Central Regional Office in Denver. The case is being prosecuted by Trial Attorney Michael Koenig and Senior Counsel for Securities Fraud Thomas Hanusik, both from the Fraud Section of the Department of Justice's Criminal Division, and Assistant United States Attorney Bill Morse.

Acting United States Attorney Papps reminds the public that an indictment merely alleges that a crime has been committed and that all defendants are presumed innocent until proven guilty beyond a reasonable doubt.

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